

Testimony of the
Connecticut Municipal Electric Energy Cooperative
to the Energy and Technology Committee of the Connecticut General Assembly
Re: HB 6632 - *AN ACT CONCERNING ENERGY EFFICIENCY AND THE COORDINATION OF ENERGY
EFFICIENCY PROGRAMS*
March 10, 2009

Background on CMEEC

The Connecticut Municipal Electric Energy Cooperative ("CMEEC") is an operating municipal joint action agency with the legal and legislative authority of a public body, corporate and politic, of the State of Connecticut. CMEEC provides the power supply requirements of the six municipal electric utilities in Connecticut at cost, free from shareholder interests and solely for the benefit of member and participant electric utility customers. CMEEC buys and sells power in the wholesale electric markets administered by ISO-New England for its own needs and also owns and operates electric generating assets with a total capacity of approximately 109MW (summer rating)¹. Other services CMEEC provides to its member and participant systems include representing its members as a single-entity in the ISO-New England and New England Power Pool ("NEPOOL") processes, developing and financing construction of electric generation and demand reduction resources, and administering energy efficiency and environmental stewardship initiatives. All of these services are implemented by CMEEC management under risk management policies and other policies approved by CMEEC's Board of Directors. The CMEEC Board is constituted by two appointees from each municipal community, consistent with the underlying "home rule" governance of these locally owned utilities.

CMEEC's Position on the Proposed Legislation

CMEEC and its member and participant utilities are strenuously opposed to the provisions of Raised Bill 6631 that include CMEEC and its member and participant systems' energy efficiency and renewable energy program plan development and administration under the authority of a proposed Energy, Efficiency and Renewable Resources Board (the Board) and the Department of Public Utility Control (DPUC). Specifically, Section 1(3)(A) requires the Board to "advise the municipal electric energy cooperatives regarding programs developed pursuant to CGS Section 7-233y," which statute originally mandated the plan. The Board is also charged with advising and assisting CMEEC in *the development and implementation* (emphasis added) of this plan under Section 2(d) and further has the authority to *accept, modify or reject* (emphasis added) each program in the plan. Section 2(c) mandates that the CMEEC annual plan be submitted to and considered by the DPUC in an uncontested case during which the DPUC may "hold a public hearing, *approve, modify or reject the plan*" (emphasis added). Simply put, these provisions could be interpreted as transferring authority, at least in part, in setting electric rates

¹ Approximately 132 MW in winter. In addition CMEEC members own and operate a mix of hydroelectric and fossil generation totaling about 27MW and have under contract Demand Response resources totaling about 70MW of load shedding capability.

for the municipal systems from the locally elected and appointed officials to the DPUC. This conflicts with the strong tradition of "home rule" for municipal utilities. Further, this provision will harm our member and participant utility customers by adding an additional layer of administrative and regulatory costs that will be passed on through rates, but provide no material additional benefit to municipal electric customers over and above the existing processes.

Since municipal electric customers are our shareholders, added regulation is a prescription for reduced services and/or higher rates for our customers. The proposed bill calls for a great deal of new regulatory costs. For example, Section 2(f)(9) requires that municipal utilities bear additional costs associated with the Board's review of their plan, including paying for expert consultants and reasonable administrative costs that could total up to five percent of the total cost of the plan. None of these outside services will be offset by any reduction in CMEEC or municipal utility program costs; in fact CMEEC and municipal utility administrative costs would increase to cover the cost of program interaction and reporting to meet the proposed state mandates. CMEEC will be obligated to dedicate staff for the Board and DPUC review processes. These and other new administrative and regulatory costs in the bill will have to be recovered through some combination of service reductions and rate increases for municipal electric customers.

Eliminating CMEEC's and its member and participant utilities' flexibility and discretion with regard to the programs and services it offers will result in lost opportunities for customers. Under the existing structure, the municipal utilities and CMEEC meet and work with individual customers to find solutions to their specific needs – particularly commercial and industrial customers who are hardest hit by unnecessary consumption and charges. For example, Norwich Public Utilities (NPU) works closely with key accounts, identifying and partnering with local lending institutions to finance cost effective efficiency improvements. Comprehensive programs are available to all customers including no cost independent energy analyses. Whether large or small customers, NPU staff works directly with the customer through the entire process, from opportunity identification through implementation. NPU's close relationships with its customers are indicative of the service all of the Connecticut municipals seek to provide.

Collectively, the result of exercise of exclusive local control is that CMEEC, while only about 1.5% of ISO-New England load, supplies more than 10% of its demand response participation. Under the proposed bill, the municipal utilities and CMEEC would be relegated to a cookie cutter approach to programming energy efficiency services. Customers will face the risk of being left to fend for themselves while municipal utilities helplessly await regulatory approvals. Worse still, municipal electric customers may be denied services simply because they do not fit criteria for programs that benefit customers of the electric distribution companies but that the Board feels should be enacted to fulfill an abstract coordination standard.

The proposed bill may impact CMEEC's credit outlook. Underlying CMEEC's strong credit rating agency standing is the ability to control the cost of its administration and programs. Introducing regulatory uncertainty with Board and DPUC program oversight and approval where there has never been such second level imposition weakens CMEEC's credit outlook and in turn raises rates. Rating agencies also

may view such legislation as portending further future change in municipal utility regulation, which recognition would weaken both CMEEC and municipal credit ratings. Again, lower credit ratings raise utility costs and consumer bills

The proposed bill runs the strong risk of disproportionately impacting municipal electric customers. The municipal utilities' pool of customers represents less than 6% of Connecticut's electric load. However, this estimation is not universal. Simply allocating program costs according to general customer participation or network load figures will not be sufficient to protect municipal ratepayers from incurring costs that are not fairly theirs or from receiving the full benefit of their actions and investments. Since details on the cost vs. benefit ratios required under various the regulatory processes in the proposed bill are unclear and somewhat discretionary to the various bodies, CMEEC suspects it would not meet implementation thresholds.

The proposed bill could have real wholesale market cost implications for CMEEC's cost of power. The wholesale electric markets are a complex, constantly changing and intricate. With the addition of further energy efficiency and demand resources to the mix of ISO-New England market eligible resources, the proposed bill has more than just policy coordination implications. For example, the lack of certainty about the amount and type of demand side resources that will comprise our portfolio will impact our ability to bid those resources in the wholesale market three or four years from now in a manner that will be advantageous for customers. Our flexibility with regard to portfolio management is one of the most important economic advantages the municipals have under the law. An example of this is the CMEEC Board's decision to reserve the payments from ISO New England associated with the conservation and load management programs implemented by the municipal utilities for investment in renewable resource projects within the local communities. Loss of any part of CMEEC's flexibility to control and manage its portfolio will have a real impact on wholesale market costs to municipal electric customers.

The municipal utilities, with compact service areas under very visible and accessible local control, need no prodding regarding energy efficiency and renewable energy implementation. These not-for-profit service providers are directly responsible to their consumers and under local leadership have been and continue to be in the forefront of establishing new ways to conserve and generate electricity. For example Norwich introduced weatherization and solar panels in the 1970s, Groton has a long history of utilization of demand response to shave peak, and East Norwalk implemented savings funded conservation programs in the early 1990s—all delivered at cost and with minimal overhead expense. In these and many other instances throughout each of the municipal systems, no state or federal mandates preceded activity.

In addition the municipal utilities have close working relationships with local community service organizations, enabling coordination and prioritization of low income weatherization and energy efficiency services. Direct contact with local organizations such as senior centers helps aid implementation for demographics otherwise difficult to serve.

Today the many programs in place and initiatives underway demonstrate the value of local program control for public power utilities. CMEEC and the municipal utilities are working on a new significantly

sized CHP project with a major municipal electric customer. In addition, negotiations for new and renewed biomass projects and a new technology demonstration waste remediation-energy production facility are underway.

We also note that local control helps development of local innovations. CMEEC has helped Connecticut businesses bring to market energy saving devices and concepts through beta testing and financial support. This continues today with CMEEC pursuing renewable technologies that have synergistic benefits to its customers within the local community. Most such ventures have commercial value that cannot be disclosed in the manner anticipated in the proposed program. It would be unfortunate if a state mandate made it more difficult for CMEEC to support locally based new technology development.

CMEEC believes that it already meets the coordination goals outlined in the proposed bill under the present system. Section 2(e) requires a cost benefit test of CMEEC's programs comparing the value and payback period of program benefits and costs. CMEEC already fulfills this requirement for its programs. In addition, the program coordination requirements in the bill with the electric distribution companies are met today through CMEEC's participation in the Energy Conservation Management Board (ECMB).

Finally, and significantly, it is important to remember that part of the benefit CMEEC and the municipal utilities provide to Connecticut's electric policy-making landscape is to serve as a competitive yardstick for measuring the performance of the state deregulated system and investor owned utilities. To the extent that CMEEC and its member and participant utilities are thrown into the same pool as the investor owned utilities, its ability to provide policy makers with an alternative metric will be lost. The yardstick comparison works both ways and CMEEC benefits from lessons learned about investor utility programs through the ECMB dialogue, helping us better deliver energy efficiency services.

For these reasons and more, CMEEC and its member and participant utilities are opposed to Raised Bill 6631. We do appreciate that the proposal is well intended and trust that our explanation of serious unintended consequences for CMEEC and the municipal utilities is sufficient to cause reconsideration. We would also like to take this opportunity to offer the Energy and Technology Committee our services in vetting proposals, assessing feasibility and simply serving as an independent informational source from a consumer vantage point on energy matters. The municipal utilities and CMEEC have a wide range of experience in hydroelectric and fossil generation, renewable power, energy efficiency and consumer support, as well as direct access to the best practices of over 2,300 public power entities throughout the country through our national association, the American Public Power Association (APPA). We would be pleased to bring these resources at your request if we can be of any assistance with these complex issues.

Thank you.